

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-01
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AMCONSUL GENOA
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AMCONSUL NAPLES
AMEMBASSY PARIS
USMISSION OECD PARIS
AMCONSUL PALERMO
AMCONSUL TRIESTE
AMCONSUL TURIN

UNCLAS ROME 1206

VICE PRESIDENT'S PARTY FOR COOPER, BERGSTEN AND HORMATS

PASS FRB

E.O. 11652: N/A
TAGS: EFIN, IT
SUBJECT: ANDREOTTI ARTICLE ON ECONOMIC SITUATION

1. /SUMMARY/. MILAN FINANCIAL DAILY JANUARY 25 CARRIES TEXT
OF ARTICLE BY PRIME MINISTER ANDREOTTI WHICH WILL BE INCLUDED
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IN ANNUAL REPORT PUBLISHED BY "24 ORE" CALLED "PANORAMA
ECONOMICO". THEMES OF ANDREOTTI ARTICLE ARE:
(1) CRITICAL PROBLEM OF INFLATION; (2) PERVERSE EFFECTS OF
INFLATION ON DISTRIBUTION OF INCOME; (3) MEASURES TAKEN BY
GOI TO DEAL WITH PROBLEM; (4) SACRIFICES REQUIRED BY VARIOUS
ELEMENTS OF ITALIAN SOCIETY; AND (5) ROLE OF INTERNATIONAL
LENDING ORGANIZATIONS ./ END SUMMARY/.

2. ANDREOTTI STRESSES FACT THAT IN RECENT YEARS ECONOMIC PROBLEMS HAVE BECOME MATTER OF SERIOUS CONCERN AT HIGHEST LEVELS OF GOVERNMENT IN BOTH DEVELOPED AND DEVELOPING COUNTRIES. AMONG ECONOMIC PROBLEMS, THAT OF INFLATION HAS TAKEN PREEMINENT ROLE. IN ITALIAN CONTEXT, INFLATIONARY PROBLEM HAS BEEN PARTICULARLY CRITICAL. RISE IN LABOR COSTS, HOWEVER MUCH REQUIRED BY SOCIAL JUSTICE, HAS BEEN HIGHLY CONCENTRATED IN BRIEF PERIOD OF TIME. ALSO, SHARP WORSENING IN ITALY'S TERMS OF TRADE WITH THE REST OF THE WORLD CONSTITUTES TAX UPON REAL WEALTH. CONTINUATION OF INFLATION AT PRESENT UNACCEPTABLE LEVEL CAUSES HIDDEN REDISTRIBUTION OF INCOME TO DETRIMENT OF POOREST CLASSES AND WILL PROGRESSIVELY RESULT IN EXCLUSION OF ITALY FROM RANKS OF INDUSTRIAL COUNTRIES. ANDREOTTI POINTS OUT THAT, DESPITE SHARP INFLATION, LABOR INCOME HAS NONETHELESS MORE THAN KEPT PACE. IN 1976 ANDREOTTI ESTIMATED THAT WAGE AND SALARY INCOME INCREASED BY NEARLY 20 PERCENT, WHILE UNIT LABOR COSTS ROSE BY ABOUT 16 PERCENT. SUCH AN INCREASE IN UNIT LABOR COSTS WAS WELL IN EXCESS OF THAT IN COMPETING COUNTRIES.

3. ANDREOTTI BRIEFLY MENTIONED MEASURES TAKEN BY GOI SINCE MID-1976 IN AREA OF FOREIGN EXCHANGE CONTROLS, CREDIT POLICY, TAX AND PUBLIC SERVICE CHARGES AND MAINTENANCE OF INVESTMENT AND EMPLOYMENT. BECAUSE OF ITALY'S DEPENDENCE ON IMPORTED RAW MATERIALS AND DEBT AMORTIZATION OBLIGATIONS, IT WAS ESSENTIAL THAT PRESENT COST/PRICE SPIRAL BE ARRESTED TO PERMIT EXPORT GROWTH.

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4. ANDREOTTI POINTED OUT THAT SACRIFICES WOULD BE REQUIRED BY ALL ELEMENTS OF SOCIETY. HOUSEHOLDS MUST LIMIT THEIR LEVEL OF CONSUMPTION. BUSINESSES CANNOT EXPECT A COMPLETE AND RAPID RESTORATION OF PROFIT MARGINS. NON-WAGE AND SALARY WORKERS MUST ACCEPT A MORE EQUITABLE TAX TREATMENT AND WAGE AND SALARY WORKERS MUST COOPERATE WITH BUSINESS TO REDUCE RATE OF INCREASE IN LABOR COSTS TO LEVELS WHICH WILL PERMIT ITALIAN GOODS TO COMPETE IN FOREIGN MARKETS.

5. ANDREOTTI SAID THAT THE UNINFORMED MIGHT CRITICIZE AS INTERFERENCE IN ITALIAN AFFAIRS DEMANDS MADE BY INTERNATIONAL MONETARY FUND AND EC, AS IF ITALY WERE NOT IN NEED OF FINANCIAL ASSISTANCE FROM THOSE INSTITUTIONS. ALSO, IT WAS NECESSARY TO STRESS THAT, EVEN IF IMF AND EC DID NOT EXIST, STABILIZATION MEASURES WOULD BE EQUALLY INDISPENSABLE AND WOULD PROBABLY HAVE TO BE EVEN MORE DRASTIC. ANDREOTTI CITED RECENT COOPERATIVE EFFORTS OF U.K. GOVERNMENT AND LABOR UNIONS AS AN EXAMPLE TO BE FOLLOWED. BEAUDRY

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Decaption Note:
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Disposition Approved on Date:
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Disposition Comment:
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Executive Order: N/A
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